



## SPECIAL INSPECTOR GENERAL FOR IRAQ RECONSTRUCTION

January 31, 2011

LETTER FOR THE U.S. SECRETARY OF DEFENSE

DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET

SUBJECT: Commander's Emergency Response Program Obligations Are Uncertain  
(SIGIR 11-012)

This letter addresses the Special Inspector General for Iraq Reconstruction's review of the Department of Defense's accounting for the obligation and expenditure of Commander's Emergency Response Program (CERP) funds allocated for Iraq, and how those funds were used. Public Law (P.L.) 108-106, as amended, requires that the Special Inspector General for Iraq Reconstruction (SIGIR) report on the oversight and accounting of the obligation and expenditure of funds in Iraq.

Since 2003, the Army Budget Office reports that it has allocated about \$3.89 billion for CERP projects in Iraq. According to *Money as a Weapons System* (MAAWS), the U.S. Forces-Iraq (USF-I) policy and procedures manual that directs program execution and establishes the goals for CERP funding, two information systems track CERP data: the CERP Project Tracker, which is a resource management tool that identifies the status of each CERP project, and the Army Standard Financial System (STANFINS), which identifies CERP obligations and expenditures. The objective of this review is to determine the extent to which funds appropriated for CERP have been obligated and liquidated, and how those funds have been used.

### Background

In May 2003, the Coalition Provisional Authority established the CERP in Iraq. The purpose of CERP is to enable U.S. military commanders to respond to urgent humanitarian relief and reconstruction requirements within their area of responsibility by carrying out programs that will immediately assist the indigenous population. According to the most recent version of *Money as a Weapons System* (MAAWS), the policies and procedures manual for CERP, CERP is intended for projects that cost less than \$50,000 and that the Iraqi government or local population can sustain. Commanders are instructed to design projects that focus on urgent humanitarian relief while providing significant employment opportunities for the Iraqi people, and to work directly with the Government of Iraq to ensure the project is wanted and that the government agrees to maintain and sustain it.

Report Documentation Page				Form Approved OMB No. 0704-0188	
Public reporting burden for the collection of information is estimated to average 1 hour per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden, to Washington Headquarters Services, Directorate for Information Operations and Reports, 1215 Jefferson Davis Highway, Suite 1204, Arlington VA 22202-4302. Respondents should be aware that notwithstanding any other provision of law, no person shall be subject to a penalty for failing to comply with a collection of information if it does not display a currently valid OMB control number.					
1. REPORT DATE <b>31 JAN 2011</b>		2. REPORT TYPE		3. DATES COVERED <b>00-00-2011 to 00-00-2011</b>	
4. TITLE AND SUBTITLE <b>Commander's Emergency Response Program Obligations Are Uncertain</b>				5a. CONTRACT NUMBER	
				5b. GRANT NUMBER	
				5c. PROGRAM ELEMENT NUMBER	
6. AUTHOR(S)				5d. PROJECT NUMBER	
				5e. TASK NUMBER	
				5f. WORK UNIT NUMBER	
7. PERFORMING ORGANIZATION NAME(S) AND ADDRESS(ES) <b>Office of the Special Inspector General for Iraq Reconstruction, 400 Army Navy Drive, Arlington, VA, 22202-4704</b>				8. PERFORMING ORGANIZATION REPORT NUMBER	
9. SPONSORING/MONITORING AGENCY NAME(S) AND ADDRESS(ES)				10. SPONSOR/MONITOR'S ACRONYM(S)	
				11. SPONSOR/MONITOR'S REPORT NUMBER(S)	
12. DISTRIBUTION/AVAILABILITY STATEMENT <b>Approved for public release; distribution unlimited</b>					
13. SUPPLEMENTARY NOTES					
14. ABSTRACT					
15. SUBJECT TERMS					
16. SECURITY CLASSIFICATION OF:			17. LIMITATION OF ABSTRACT <b>Same as Report (SAR)</b>	18. NUMBER OF PAGES <b>15</b>	19a. NAME OF RESPONSIBLE PERSON
a. REPORT <b>unclassified</b>	b. ABSTRACT <b>unclassified</b>	c. THIS PAGE <b>unclassified</b>			

Initial funding for CERP came from seized Iraqi assets and the Development Fund for Iraq.<sup>1</sup> In November 2003, the Congress passed the first appropriation for CERP as part of Public Law (P.L.) 108-106, the *“Emergency Supplemental Appropriations Act for Defense and for the Reconstruction of Iraq and Afghanistan, 2004.”* Generally, the Congress appropriates CERP funds in DoD annual and supplemental appropriations, and funds are available for obligation only until the end of the associated fiscal year. The Fiscal Year 2006 supplemental appropriation, however, allowed for the obligation of these funds until December 31, 2007. This allowed the supplemental to be used in Fiscal Year 2007 and the first quarter of Fiscal Year 2008. Generally, the Congress does not appropriate the CERP to a specific country but rather to a fund for both Iraq and Afghanistan. DoD then allocates the funds to the countries.

### ***Roles and Responsibilities***

DoD regulations identify the roles and responsibilities of the various offices that manage CERP. The Under Secretary of Defense (Comptroller) establishes and provides oversight over the financial accounting for CERP. The U.S. Army is the executive agent for CERP and is responsible for ensuring that commanders carry out CERP projects in accordance with applicable laws, regulations, and guidance.

The U.S. Central Command oversees all military operations, programs, and funds in both Iraq and Afghanistan. U.S. Central Command is responsible for allocating CERP funds between Iraq and Afghanistan, and through its component command, the U.S. Army Central Command, is required to reconcile CERP every three months and report these results to the Army Budget Office. The Army Budget Office, under the Office of the Assistant Secretary of the Army for Financial Management and Comptroller, is responsible for producing the quarterly report to the Congress on the source, allocation, and use of CERP funds, pursuant to Public Law 109-148.

The USF-I<sup>2</sup> Deputy Commanding General for Operations has theater oversight of CERP and publishes guidance identifying objectives and goals. Major Subordinate Command (MSC) Commanders identify and approve CERP projects and are required to verify that local, national, donor nation, non-governmental organization or other aid or reconstruction resources are not reasonably available before using CERP funds. USF-I publishes *Money as a Weapons System* (MAAWS), a policies and procedures manual that directs program execution and establishes the goals for CERP funding.

The USF-I Resource Manager (J8) is the overall program coordinator for CERP. According to the MAAWS, USF-I J8 is responsible for developing the annual CERP funding requirement. Specifically, USF-I J8 obtains annual authority from U. S. Central Command and obtains funds from the U.S. Army Central Command. USF-I requests funds on a quarterly basis or as needed. The USF-I J8 is responsible for

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<sup>1</sup> The Development Fund for Iraq was established May 2003 by the UNSC Resolution 1483 as a means to channel revenue from Iraqi oil sales, unencumbered Oil for Food deposits, and repatriated Iraqi assets to the relief and reconstruction efforts for Iraq.

<sup>2</sup> Prior to USF-I's establishment on January 1, 2010, the Multi-National Corps-Iraq provided the overall program coordination for CERP in Iraq for the Multi-National Force-Iraq. Both of these commands were subsumed into USF-I.

developing a recommended funds distribution plan which is approved by the USF-I Deputy Chief of Staff. USF-I J8 allocates funds and monitors MSC's commitments, obligations, and disbursements.

### ***CERP Management Information Systems***

According to the MAAWS, the accuracy of CERP reporting is based on checks and balances. The two information systems set up to provide this accountability are the CERP Project Tracker and the Army Standard Financial System (STANFINS). STANFINS is the Army's official accounting record and should contain all CERP obligations and expenditures. The CERP Project Tracker is the CERP program information system. Subordinate USF-I commands that implement CERP projects must enter the projects into the CERP Project Tracker and keep that information current. The CERP Project Tracker must accurately reflect amounts committed, obligated, and disbursed for each project, as well as project status. The MAAWS requires that CERP Project Tracker data be reconciled monthly with CERP data in STANFINS. In addition, the MAAWS requires that all CERP funding be captured in the CERP Project Tracker and reconciled throughout the life of each project.

### **Army Budget Office Reported Status of Funds**

Table 1 shows the status of CERP funds as of September 30, 2010, as reported by the Army Budget Office. As shown, \$3,890,709,000 was allocated for CERP projects in Iraq. Of this amount, \$3,675,323,152 (94.5%) has been obligated. Of the amount obligated \$3,560,356,040 (96.9%) has been disbursed, and \$114,967,222 (3%) remains unliquidated.

**Table 1—Status of CERP Funds by Fiscal Years (FY) 2004–2010 as Reported by Army Budget Office as of September 30, 2010**

<b>FY (Appropriation)</b>	<b>Total Allocation for Iraq</b>	<b>Amount Obligated</b>	<b>Disbursements</b>	<b>Unliquidated Obligations</b>
2004 (2142020135)	\$140,000,000	\$133,590,139	\$133,590,139	\$0
2005 (214/52220136)	\$718,000,000	\$667,100,044	\$667,100,044	\$ 0
2006* (2162020136)	\$509,500,000	\$458,275,777	\$457,811,312	\$464,575
2006 Supplemental (216/82320136)	\$198,000,000	\$188,055,744	\$187,397,184	\$658,560
2007 (2172020136)	\$750,400,000	\$717,404,796	\$716,207,777	\$1,197,019
2008 (2182020136)	\$995,909,000	\$939,317,976	\$935,131,687	\$4,186,289
2009 (2182020136)	\$339,050,000	\$331,300,379	\$326,947,504	\$4,352,875
2010 (2102020136)	\$239,850,829	\$240,278,297	\$136,170,393	\$104,107,904
<b>Total</b>	<b>\$3,890,709,829</b>	<b>\$3,675,323,152</b>	<b>\$3,560,356,040</b>	<b>\$114,967,222</b>

**Note:**

Numbers are affected by rounding.

Source: Army Budget Office.

**Army Budget Office Disbursement Data Agrees with USF-I Data**

The disbursement data provided by the Army Budget Office agrees with the disbursement reported by USF-I. Further, SIGIR conducted a forensic review of DoD's electronic disbursements of CERP funds looking for anomalies that were then given additional review. SIGIR's anomaly testing focused on vouchers that have been paid. While SIGIR's anomaly testing is underway, to date our testing has not disclosed significant issues.

**Army Budget Office Allocation Data Does Not Agree with USF-I Data**

The CERP fund allocations that USF-I reports it has received do not agree with the amount that the Army Budget Office reports it provided. According to USF-I, it has received CERP allocations totaling \$4,558,000,000 while the Army Budget Office reports allocations of \$3,890,709,829; a difference of approximately \$667,290,171. The differences occurred in Fiscal Years 2008, 2009, and 2010. In FY 2008, USF-I reports it received allocations totaling \$1,250,000,000, while the Army Budget Office reports allocations of \$995,909,000. In FY 2009, USF-I reports it received allocations totaling \$747,000,000,

while the Army Budget Office reports allocations of \$339,050,000. Finally, in 2010, the Army Budget Office report shows an allocation of \$239,850,829, while USF-I reports about \$245,000,000, a difference of about \$5 million.

SIGIR requested supporting documentation from USF-I for its higher reported allocations, but USF-I was unable to provide the support. As shown in Table 1, however, despite USF-I's assertion that it received more CERP funds than the Army Budget Office reports, its obligations for both FY 2008 and 2009 were less than the allocations reported by the Army Budget Office. An Army Budget Office Official informed us that they were working to resolve the differences. To date SIGIR has not received a response from them on the reconciliation of these many discrepancies.

### ***CERP Obligations Are Uncertain***

As of September 30, 2010, both the Army Budget Office and USF-I report CERP obligations of \$3,675,323,152. However, both obtained their obligation data from STANFINS. Several prior SIGIR reports have raised questions about whether STANFINS contains all CERP obligations.

In October 2010, SIGIR issued a report on the forensic methodologies we used to collect and analyze electronic disbursements of Iraq reconstruction funds.<sup>3</sup> In that report, we stated that we could not reconcile and validate CERP transactions for Iraq because the CERP transaction data that we received from DoD included other funds and/or CERP funds used in Afghanistan. This was caused by discrepancies in how some transactions were coded in DoD's financial systems. As a result, the amount of CERP transactions that we analyzed (\$4.0 billion) was greater than the amount DoD reported as allocated for Iraq. The difference was about \$180,000,000.

A second reason we believe that the CERP obligation data may not be complete stems from a finding in our ongoing audit of Department of Defense (DoD) appropriation, obligation, and expenditure data to meet our mandate to forensically audit all Iraq reconstruction funds. We are reporting this month that in collecting the records, we found that about \$2.5 billion in transactions, primarily CERP transactions, were recorded in the Deployable Disbursing System (DDS). During our data collection process, we attempted to reconcile the DDS data we were provided with Congressional appropriations and other DoD financial system data and found that some DDS data was missing. According to an Army Financial Management Command official, the missing data is from two sites in Iraq: Camp Speicher, Tikrit, for the period October 2005 through March 2007; and Camp Liberty, Baghdad, for the period October 2005 through August 2006. The total amount of information that is missing cannot be determined without reconstructing the activity through a review of each voucher. In an effort to evaluate the scope of the missing data, SIGIR collected DDS data associated with the Camp Liberty disbursing site for September 2006 through May 2007. We found that the average monthly payment activity for this period was approximately \$75 million, and 96% of the transactions were in cash for CERP projects. While this

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<sup>3</sup> *Forensic Audit Methodologies Used To Collect and Analyze Electronic Disbursements of Iraq Reconstruction Funds*, SIGIR 11-006, 10/28/2010.

average cannot be directly related to the missing DDS data, it suggests that the missing data contains a substantial amount of payment activity.

Finally, we note that USF-I has been unable to reconcile the CERP obligation data it maintains in its CERP Project Tracker system with STANFINS each month as required by MAAWS. According to USF-I J8 officials, until recently it could only make adjustments to data in the CERP Project Tracker for the current fiscal year. Data on CERP projects that were still ongoing at the end of a fiscal year was not carried forward into the new fiscal year, and obligation data for open projects was no longer kept current. According to USF-I J8 officials, this problem has been corrected, and starting in FY 2011 the CERP Project Tracker will contain data for all new projects for FY2011, in addition to FY 2010 projects that were not closed.

## Incomplete Data on Use of CERP

For the reasons discussed above we were unable to develop reliable data on how much USF-I spent for specific categories of CERP projects. Table 2 provides USF-I's most complete information on how it has used its CERP funding. Note that the largest category is "No Category Listed." According to USF-I officials, this category is used when units do not identify a category for their CERP projects. It accounts for 21% of all CERP funding.

**Table 2—Use of CERP Funds for Iraq by Category; Fiscal Years 2004–2010, as Reported in the CERP Project Tracking System (\$ in millions)**

<b>CERP Category</b>	<b>Expenditures</b>	<b>Total Projects</b>
Agriculture/Irrigation	\$164.0	977
Battle Damage Repair	\$16.0	734
Civic Clean-up Activities	\$202.0	2,484
Civic Infrastructure Activities	\$44.0	292
Civic Support Vehicles	\$46.0	245
Condolence Payments	\$36.0	1,622
Econ, Financial & Management	\$172.0	16,981
Education	\$350.0	3,493
Electricity	\$316.0	1,599
Food Production & Distribution	\$20.0	115
Former Detainee Payments	\$1.0	201
<b>CERP Category</b>	<b>Expenditures</b>	<b>Total Projects</b>
Healthcare	\$111.0	1,220

Iraqi Hero Payments	\$0.7	87
Humanitarian/Reconstruction	\$150.0	2,828
No Category Listed (According to USF-I during review of prior year files, several projects from Fiscal Years 2004-2006 had no category)	\$767.0	7,737
Protective Measures	\$521.0	3,949
Repair of Civic & Cultural Facilities	\$53.0	560
Rule of Law & Governance	\$67.0	794
Telecommunications	\$17.0	195
Temporary Contract Guards	\$36.0	637
Transportation	\$261.0	1,720
Water & Sanitation	\$446.0	3,006
<b>Total</b>	<b>\$3,700</b>	<b>51,474</b>

*Source: USF-I data from CERP Project Tracker system, as of September 10, 2010.*

## Concluding Observations

Army Budget Office officials recognize that there are inconsistencies between ABO and USF-I CERP data. These officials are taking steps to determine the causes of the discrepancies and take corrective actions.

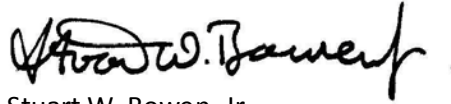
## Management Comments

DoD informed us that they wanted to provide comments but were unable to do so in the time allotted. Should they do so at a later date, we will incorporate them in this report at that time.



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We appreciate the courtesies extended to the SIGIR staff. For additional information on the report, please contact Glenn D. Furbish, Assistant Inspector General for Audits (Washington, DC), (703) 604-1388/ [glenn.furbish@sigir.mil](mailto:glenn.furbish@sigir.mil) or Jason Venner, Principal Deputy Assistant Inspector General for Audits (Washington, DC), (703) 607-1346/ [jason.venner@sigir.mil](mailto:jason.venner@sigir.mil).

A handwritten signature in black ink, appearing to read "Stuart W. Bowen, Jr.", followed by a period.

Stuart W. Bowen, Jr.  
Inspector General

cc: U.S. Secretary of State  
U.S. Secretary of Defense  
Commander, U.S. Central Command  
Commanding General, U.S. Forces-Iraq

## **Appendix A—Scope and Methodology**

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In April 2009, the Special Inspector General for Iraq Reconstruction (SIGIR) announced Project 1012 to audit the status of Appropriations for Commander's Emergency Response Program for Iraq (CERP). Our objective for this report is to determine the status of the CERP appropriations. This audit was performed under the authority of Public Law 108-106, as amended, which also incorporates the duties and responsibilities of inspectors general under the Inspector General Act of 1978. SIGIR conducted its work during July 2010 through November 2010 in the United States and in Baghdad, Iraq.

To accomplish our audit objective, we obtained and analyzed documents and data provided by USF-I officials on processes and procedures used to track and account for obligations and expenditures made from appropriations of the Commander's Emergency Response Program (CERP). USF-I was able to provide supporting documentation only for Fiscal Year 2010, such as the Operational Data Store pull from the Army Standard Financial Systems (STANFINS), which is the financial management system of records for CERP. Further, we obtained and reviewed relevant laws and regulations governing the appropriation of CERP. We then compared the allocation and obligation data in the two systems to assess whether the data in each system appeared complete, and whether the data in the two systems were consistent and could therefore provide reasonable assurances that the data were accurate. We also assessed whether the USF-I data on uses of CERP appeared complete.

We conducted this audit in accordance with the generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

### **Use of Computer-processed Data**

We used computer-processed data from the STANFINS Operational Data Store for Fiscal Year 2010 for our assessment of obligations and expenditures, and from the USF-I Project Tracker for the status and uses of CERP funds. We did not verify the data and discussed our concerns with these databases in this report.

## Internal Controls

In conducting the audit, we attempted to assess the internal controls used by USF-I to track the status of funds appropriated for the CERP. We were not able to make a determination regarding the internal control system as a result of USF-I's inability to provide the necessary supporting documentation regarding the CERP funding.

## Prior Coverage

We reviewed the following audit reports issued by SIGIR and the Department of Defense:

### ***Special Inspector General for Iraq Reconstruction***

- *Forensic Audit Methodologies Used To Collect and Analyze Electronic Disbursements of Iraq Reconstruction Funds*, SIGIR 11-006, 10/28/2010.
- *Iraq Commander's Emergency Response Program Generally Managed Well, but Project Documentation and Oversight Can Be Improved*, SIGIR 10-003, 10/27/2009.
- *Commander's Emergency Response Program: Hotel Construction Completed, but Project Management Issues Remain*, SIGIR 09-026, 7/26/2008.
- *Commander's Emergency Response Program: Muhalla 312 Electrical Distribution Project Largely Successful*, SIGIR 09-025, 7/26/2009.
- *Commander's Emergency Response Program in Iraq Funds Many Large-Scale Projects*, SIGIR 08-006, 1/25/2008.
- *Management of the Commander's Emergency Response Program in Iraq for Fiscal Year 2006*, SIGIR 07-006, 4/26/2007.
- *Fact Sheet on Sources and Uses of U.S. Funding Provided in Fiscal Year 2006 for Iraq Relief and Reconstruction*, SIGIR 07-005, 7/27/2007.

### ***Department of Defense, Office of the Inspector General***

- *Internal Controls Over Payments Made in Iraq, Kuwait and Egypt (Report No. D-2008-098)*, May 22, 2008.

## Appendix B—Definitions of Terms

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The following terms were used in the report.

Term	Definition
<b>Appropriation</b>	A statute that generally provides legal authority for federal agencies to incur obligations and to make payments out of the Treasury for specified purposes.
<b>Availability of Funds</b>	Funds remain available for de-obligation and subsequent re-obligation for a period of four years after the appropriation expires.
<b>Expenditures</b>	The actual spending of money; an outlay.
<b>Expired Funds</b>	Funds expire if they are not obligated within the time period specified in its appropriation for incurring obligations.
<b>Liquidated Funds</b>	Funds are considered liquidated when all services or goods have been received and paid for.
<b>Obligation</b>	A definite commitment that creates a legal liability for the payment of goods and services ordered or received.
<b>Unliquidated Obligation</b>	The amount of an obligation that has yet to be expended.

## Appendix C—Acronyms

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Acronym	Description
CERP	Commander's Emergency Response Program
DoD	Department of Defense
DFAS	Defense Finance Accounting System
IRMS	Iraq Reconstruction Management System
MAAWS	Money as a Weapons System
MSC	Major Subordinate Command
ODS	Operational Data Storage
SIGIR	Special Inspector General for Iraq Reconstruction
STANFINS	Standard Financial System
USF-I	United States Forces–Iraq

## Appendix D—Audit Team Members

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This report was prepared and the review conducted under the direction of Glenn D. Furbish, Assistant Inspector General for Audits, Office of the Special Inspector General for Iraq Reconstruction.

The staff members who conducted the review and contributed to the report include:

Arthur Granger

Wilson D. Haigler

Nancee K. Needham

## Appendix E—SIGIR Mission and Contact Information

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<b>SIGIR's Mission</b>	<p>Regarding the U.S. reconstruction plans, programs, and operations in Iraq, the Special Inspector General for Iraq Reconstruction provides independent and objective:</p> <ul style="list-style-type: none"><li>• oversight and review through comprehensive audits, inspections, and investigations</li><li>• advice and recommendations on policies to promote economy, efficiency, and effectiveness</li><li>• deterrence of malfeasance through the prevention and detection of fraud, waste, and abuse</li><li>• information and analysis to the Secretary of State, the Secretary of Defense, the Congress, and the American people through Quarterly Reports</li></ul>
<b>Obtaining Copies of SIGIR Reports and Testimonies</b>	<p>To obtain copies of SIGIR documents at no cost, go to SIGIR's Web site (<a href="http://www.sigir.mil">www.sigir.mil</a>).</p>
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